

TO:	CHAIR AND MEMBERS STRATEGIC PRIORITIES & POLICY COMMITTEE DECEMBER 4, 2012
FROM:	MARTIN HAYWARD MANAGING DIRECTOR, CORPORATE SERVICES AND CITY TREASURER, CHIEF FINANCIAL OFFICER
SUBJECT:	GROWTH MANAGEMENT IMPLEMENTATION STRATEGY (GMIS): 2013 ANNUAL REVIEW & UPDATE

RECOMMENDATION

1. That on the recommendation of the Managing Director, Corporate Services and City Treasurer, Chief Financial Officer with regard to the implementation of the Official Plan growth management policies applicable to the financing of growth-related infrastructure works the Growth Management Implementation Strategy Update **BE APPROVED** as attached in Appendix "A", it being noted that:
 - a. this strategy will provide direction on future development applications and be used as a guidance document for the 2014 Development Charge By-law update process; and
 - b. the Growth Management Implementation Strategy will be used to adjust the 10-year Capital Program for growth infrastructure.

2. That the emerging possibility of large scale deferrals of SWM ponds or an increase in the stormwater management component of the development charge as a result of a deteriorating position of the Development Charge SWM Reserve Fund **BE NOTED**, and that staff be encouraged to continue to monitor the situation, develop alternative financing approaches through the ongoing work on the 2014 Development Charge study and report back in early 2013 in conjunction with other Development Charge policy review matters.

PREVIOUS REPORTS PERTINENT TO THIS MATTER
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October 15, 2012; Development Charges Background Study Amendments: SWMF SA-2 and SWMF SB

August 29, 2012; Resolution of Council Related to Report To Planning and Environment Committee – "Old Victoria East 1697 Hamilton Road, 1742 Hamilton Road, 1990 Commissioners Road East Thames Village Joint Venture Corporation"

August 20, 2012; Report To Planning and Environment Committee – "Old Victoria East 1697 Hamilton Road, 1742 Hamilton Road, 1990 Commissioners Road East Thames Village Joint Venture Corporation"

June 19, 2012; Report to Civic Works Committee – "Phasing Of Stormwater Management Facilities"

February 6, 2012; Report to Planning and Environment Committee – "2012-2016 Growth Management Implementation Strategy"

November 16, 2011; Report to Finance and Administration Committee - "Municipal Service Financing Agreements"

October 17, 2011; Report to Built and Natural Environment Committee – "Growth Management Implementation Strategy (GMIS): 2012 Annual Review & Update"

EXECUTIVE SUMMARY

The Growth Management Implementation Strategy (GMIS) is an important tool for Council to coordinate growth infrastructure with development approvals and guide the pace of growth

across the city while maintaining an acceptable financial position. This GMIS report builds upon the financial analysis provided in the previous GMIS reports and through a process of continuous improvement seeks to ensure the affordability of growth servicing in the City of London. The work to complete the 2013 GMIS update included an improved and more robust financial and debt analysis that will give a more comprehensive view of the affordability of growth.

This report proposes a number of engineering design projects that must precede the development of the Wonderland Corridor and Southwest Area.

In addition, the schedule of works also includes updates to the timing of infrastructure works which respond to Council direction provided in 2012.

Finally, this report reveals a financial situation that we believe warrants action. Staff are recommending that due to the state of the Stormwater Management City Services Reserve Fund, deferral of scheduled stormwater servicing projects, or an increase to the stormwater management component of development charge fee in the 2014 Development Charge Rate be considered to remedy the situation. Further monitoring and development of alternative approaches to financing SWM ponds is being reviewed as part of the 2014 Development Charge (DC) Background Study.

The GMIS is an important capital budget scheduling tool to facilitate growth in the City of London and is a step forward in providing a more comprehensive financial picture to Council and the Development Community. It also recommends actions needed to prudently manage debt levels associated with investments in growth.

BACKGROUND

The initial Growth Management Implementation Strategy (GMIS) document, dated June 4, 2008, provided a schedule for City Services Reserve Fund (CSRF) growth infrastructure with estimated costs over the 20-year growth period. Having been endorsed by Council, the project list, timing and cost estimates of the GMIS were incorporated into the finalized DC Background Study which came into effect with the passing of the DC By-law in August, 2009.

The purpose of the GMIS is to provide Council with a tool to coordinate growth infrastructure with development approvals and guide the pace of growth across the city. It is reviewed and updated annually to allow for adjustment of the schedule of works between background studies so that it continues to align with growth needs and DC revenues. The GMIS aims to define an orderly progression for development charge funded works by considering the efficiency of infrastructure investments; the timeliness and location of development; the pace of development and the status of DC reserve funds; the provincial policy statement growth targets; and the desires of developers to progress applications in areas opened for growth. As well, the GMIS is intended to offer some flexibility for the City and industry to respond to changes in market conditions or to make adjustments that reflect the financial status of the DC reserve funds. Flexibility is built into the GMIS by scheduling growth infrastructure to generate opportunities for a sufficient inventory of lots; and annually adjusting the schedule of works in response to financial and market conditions.

The GMIS serves as a guideline for setting the capital program for growth infrastructure; however, it is approval of the annual Capital Budget that ultimately authorizes the timing and funding for project implementation.

The Growth Management Implementation Strategy Update for 2013-2028, represents this year's update to the City's Growth Management Plan, translated into a schedule of works for growth projects. Subject to Council approval, the updated GMIS schedule of works will be used to adjust the 10-year Capital Program for growth infrastructure.

GMIS Inputs and Principles

The GMIS update involves the integration and assessment of multiple inputs (Figure 1). Typically, each GMIS update assesses the collected information against the eight Council approved principles of GMIS to make appropriate adjustments to the schedule of works.

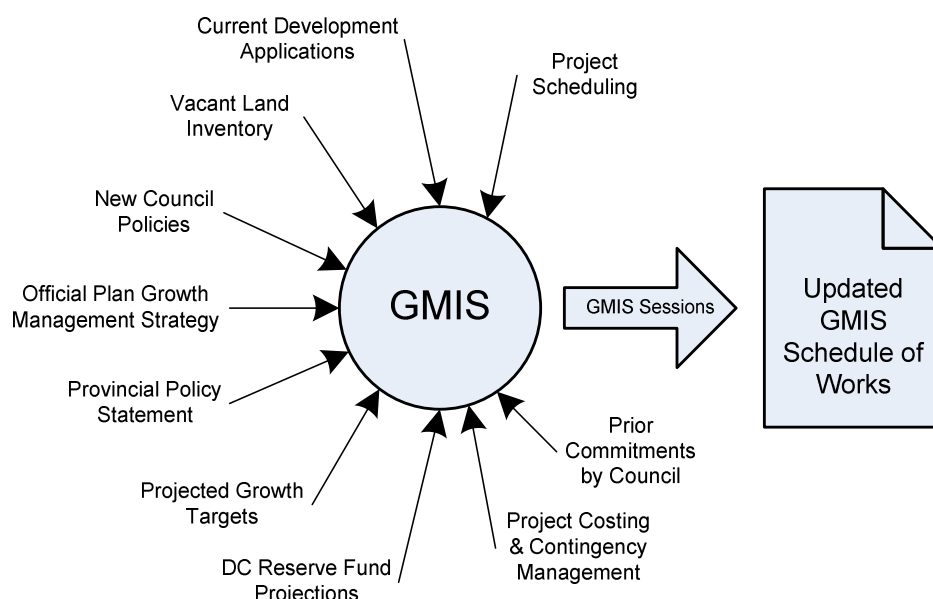


Figure 1: Inputs to the GMIS.

As part of building the first GMIS in 2008, staff and industry representatives participating in the DC Implementation Team helped develop core principles for the implementation of the City's growth management policies. These core principles guided the considerations and analysis for the original GMIS as well as future annual updates. The eight core principles set out by Council in 2008 include:

1. Provide direction for timely and cost efficient extension of municipal services both from an efficiency and municipal affordability perspective.
2. Support growth costs that are affordable within our financial capacity, having regard for both the capital and operating costs of services to support growth.
3. Allocate growth in a manner that optimizes the utilization of existing services and facilities.
4. Support the development of sufficient land to meet the City's growth needs and economic development objectives.
5. Support the implementation of Official Plan growth management policies.
6. Support the completion of existing development approvals.
7. Maintain lot and land supply that is consistent with provincial policies and conducive to a healthy housing market.
8. Co-ordinate the phasing of development approvals and the scheduling/funding of works through the capital budget.

DISCUSSION

2012 GMIS Analysis Recap

The following provides a brief recap of recent activity with respect to the previous GMIS reviews:

- The original 2012 GMIS report went to committee October 2011 and recommended a program with a mix of new and existing authority.
- Committee referred back the proposed phasing of several SWM facilities.
- February 2012 Report recommended the phasing of several SWM Facilities and the inclusion of an additional facility (Old Vic No.1).
- June 2012 Report recommended how the phasing of the SWM Facilities would be implemented

2013 GMIS Financial Analysis

The Nature of Capital Investments in Water and Sewer Infrastructure

In order to allow for development of land a variety of services are required prior to the construction of new business or homes. Several services are required prior to any building construction occurring on the site and these services include:

- Sanitary Sewers/Wastewater Treatment,
- Storm Sewers/SWM, and
- Water Transmission/ Water Supply.

This infrastructure may be constructed only months prior to building construction taking place or, as is often the case, years prior to building construction. These DC cost shareable expenditures on servicing are always made before the revenue from the development (development charges) is received. In order to finance these growth projects, money is initially raised by taking on debt.

The taking on of debt and associated interest costs are built into the Development Charge rates and debt is gradually paid back as development proceeds. To recover planned growth expenditures and financing costs, the development charge rate setting process anticipates a certain DC revenue per year. That revenue was based on an averaging of the total growth expectation over the growth horizon. **If actual revenues fall below anticipated (average) levels, the risk that the City will not be able to make the debt payments related to past infrastructure investments increases.**

Total DC Revenues (from residential and non-residential construction) are approximately 16% below expectations for the years 2010 thru the end of 2012. Investments in new infrastructure are slightly higher than the pace that was forecasted in the 2009 DC study (due to accelerated works and net increases to the amount of draws originally anticipated). The combined results of the past three (3) years activity is raising concern about sustainability and the need to 'adjust course' (see Table 1).

Debt Capacity & Analysis of Debt Financed Growth Investments

To manage debt levels associated with investments in growth infrastructure, it is prudent to pay close attention to the DC revenue streams that provide the cash to make the debt payments. The objective of managing DC funded debt levels is to avoid a situation where the revenue stream cannot support the debt payment obligations.

In November, 2011, in connection with decisions on the Municipal Servicing and Financing Agreement policy framework, Council directed that a debt cap be developed based on the low point for DC revenue over the previous ten years. Though there is insufficient history in the CSRF-SWM DC fund to complete this specific calculation (there is only 3 years of history in the CSRF-SWM DC reserve fund), the debt levels in the Sanitary and SWM funds suggested further review was in order.

Upon further review of the DC funds it was apparent that the City had already issued and would continue to need to issue a substantial amount of debt to fund infrastructure needed for growth. The two reserve funds in particular need of debt financing are Sanitary Sewerage (sewer pipes and treatment plants) and Major Stormwater Management projects (storm ponds, channels, and sewers).

Levels of average annual revenues as compared to projected debt payments are outlined in Table 1 below:

Table 1: Average DC Revenues in relation to Projected Annual Debt charge

CSRF Service Component	Average Annual DC Revenue 2010, 2011 & 2012 (projected)¹	Projected Annual Debt Charge (Principal plus Interest) related to existing Approved but unfinanced debt^{2 & 3}
Sanitary Sewers & Treatment Plants	\$5.24M	\$3.0M
Stormwater Management	\$5.5M	\$5.0M

1. The annual average revenue is used here as an indicator of future revenue levels. Average annual levels anticipated in the 2009 DC study are approximately 16% higher than actual average.
2. Debt payments on existing approved but unfinanced net debt position calculated using assumptions of 4.5% rate for a 10 year term.
3. The annual debt charge will not reach the level of average revenues for a few years. However, **debt payments are primarily the result of budget approvals provided 2-4 years earlier.** That implies that we must seriously consider the approvals being provided for DC funded SWM projects now, in order to avoid a situation where all revenues are used to make debt payments within a few years from now. The figures above therefore are indicators of potential problems with future debt that must be addressed with action towards curbing or deferring approvals now.

Of the two service components identified above, the projected SWM debt is the primary concern. The attached graph further illustrates the projected situation in the DC SWM reserve fund over the next ten(10) years.

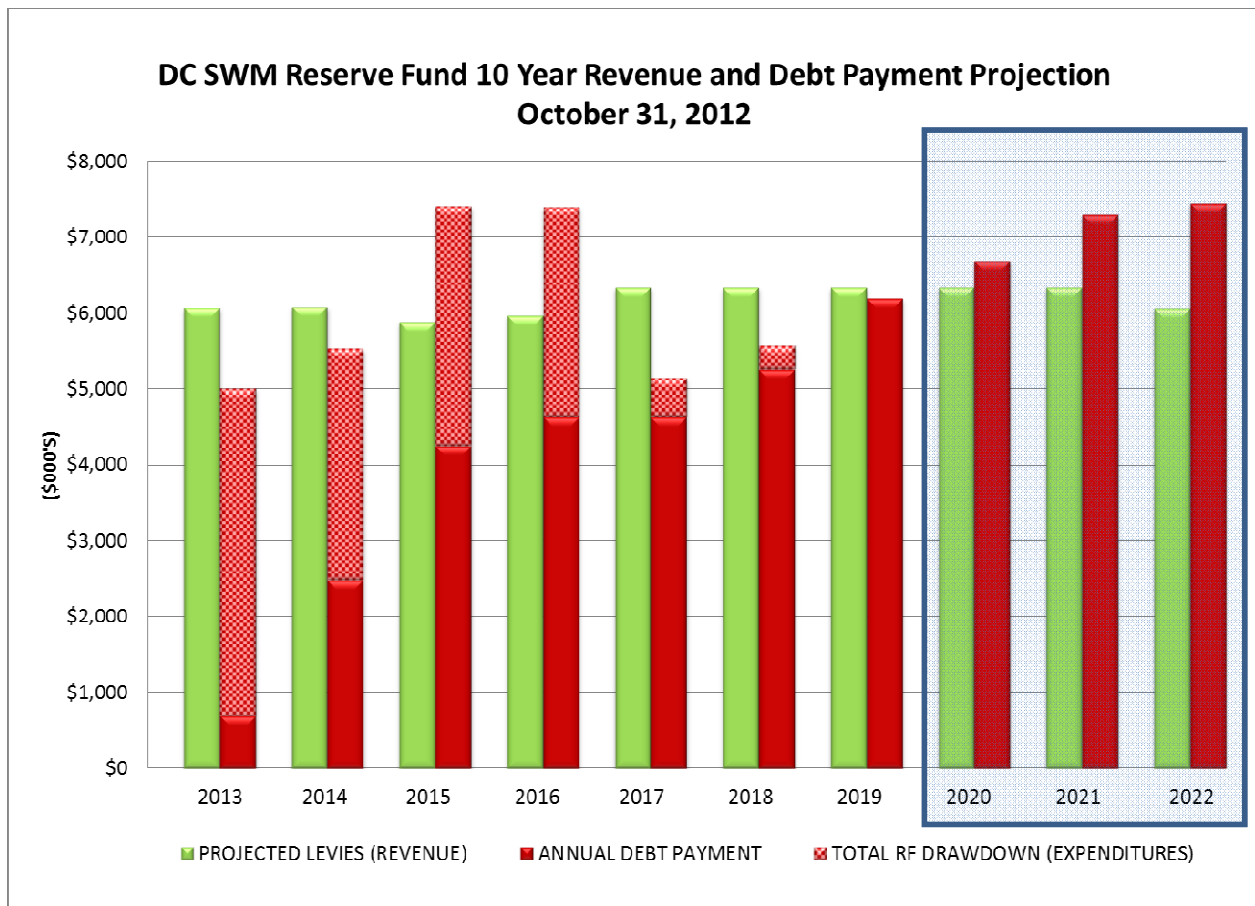


Figure 2: SWM projected revenues versus expenditures.

The graph assumes a slightly improved DC SWM revenue pattern (left bar) for the coming years as has been experienced in the past few years (ie. still slightly below DC expectations). Based on this revenue assumption: the current phasing plan for future ponds; and, interest rate assumptions, the future debt payments (right bar, solid colour); and annual drawdown (right bar, hatched colour) projections are plotted. The graph illustrates that as early as 2020, payments on SWM debt will exceed the expected revenue stream and will put the fund in a vulnerable position in relation to potential adverse changes to revenue stream. To avoid this situation, we must focus on budget approvals being granted in the coming two years.

There are several reasons for the current debt situation:

1. The pace of investment in growth exceeds the pace anticipated in the 2009 DC study and provided for in the DC rate calculations.
2. The DC Revenues for SWM are below expectations (about 16% below) provided for in the DC rate calculations. This is largely due to building activity that is below levels expected in the 2009 DC Study.

The situation in the DC reserve fund could improve within a couple of years with the following DC revenue enhancing trends:

- Increased (above average) building activity producing DC revenue increases, or
- Increased DC rates for SWM in the 2014 DC study resulting from increased financing costs (also assuming no decrease in building activity levels), or
- A combination of the two.

The situation could also be improved by deferring growth works until building activity escalates.

If improvement to the DC revenue stream does not occur in the near term, or even deteriorates, it will create an unacceptable situation in the DC reserve funds which would see 100% of DC revenues (for SWM component) directed towards debt payments.

The current DC revenue projection anticipates that the SWM reserve fund will not be able to make its debt payment within 6 years. One can make the analogy of the debt payment representing the SWM fund's mortgage payment and the development charge revenue being the SWM fund's income. As of 2020, based on the current timing of works, the SWM fund's projected income will not be enough to make the mortgage payment. Starting in 2020 the City will be in the circumstance where, the SWM fund would need to borrow funds from another source to meet debt payments – in effect, making the mortgage payment with a credit card.

Urban Works Reserve Fund (UWRF)

It should be noted that the situation in UWRF funded debt has improved in comparison to the situation that existed in mid 2009. The following table describes the decreasing level of "notional deficit" in the last two years.

Table 2: Total Urban Works Reserve Fund Notional Deficit*

Date	Estimated Claims (1)	Cash Balance in Reserve Fund (2)	Notional Deficit* (1)-(2)
January 2011	\$80,368,238	\$3,381,563	\$76,986,675
May 2011	\$73,131,519	\$2,614,415	\$70,517,104
September 2011	\$69,011,974	\$2,668,666	\$66,343,308
January 2012	\$66,758,397	\$2,837,776	\$63,920,621
May 2012	\$59,491,491	\$2,446,727	\$57,044,764
October 2012	\$57,642,868	\$2,454,380	\$55,188,488

* The Notional Deficit includes both works completed and constructed and those that are not yet constructed but are being tracked as potential obligations on draft plans of subdivision. The liability for the former (works completed and constructed) is approximately \$29M at the end of October, 2012.

It should be noted that the primary reasons for the declining Urban Works Reserve Fund debt levels are:

- i. The 2009 Development Charge Update policy changes which considerably decreased the scope of works funded by the UWRF and
- ii. The 2010 OMB appeal settlement that doubled the rate of UWRF thereby significantly increasing UWRF revenue.

GMIS Update - 2013

The following section discusses projects that have been triggered due to decisions made by Council in 2012. A summary of all projects that are proposed to be modified by this report are listed in Appendix 'A' - Summary of GMIS Adjustments & Additions.

a) Southwest Area Servicing - Implementation Projects

As noted in previous committee reports related to the Southwest Area Plan, the current 2009 Development Charge Background Study includes approximately \$90.7M (Present Value Cost Estimate) of servicing works to accommodate growth within the Southwest Area. Between the DC Study and the related City of London Master Servicing Studies (Water, Wastewater, Stormwater, and Transportation) there is a comprehensive servicing strategy to allow for the development of the southwest. As noted in the Southwest Area Plan reports, the 2013 Growth Management Implementation Strategy (GMIS) would recommend the inclusion of capital budget items for the engineering design/staging of possible additional servicing works and to evaluate the ultimate servicing implications. This design information would then feed into the 2014 DC Background Study which would incorporate the capital construction costs and provide the timing of required engineering works. The following design studies are proposed to be brought forward to 2013 to facilitate the servicing of the lands within the Southwest Area Plan.

- Southwest Sanitary Servicing Implementation Study; and
- Wonderland Road Corridor Environmental Assessment.

Further study work including an Environmental Assessment for stormwater management servicing for the lands outside the Wonderland Corridor will be included in the 2014 Development Charges Background Study. Progressing these studies will not exacerbate the DC SWM Reserve fund debt position.

b) Revised Timing for Growth Projects driven by Council Decisions

The timing of two stormwater management projects have been modified by Council resolution during 2012. Old Victoria SWMF No.1 was the subject of several Planning and Environment Committee reports in 2012. The Old Victoria SWMF No.1 was not incorporated in the 20-year growth horizon in the 2009 Development Charge Study and the 2012 GMIS recommended that the timing of the pond be added to 2017. The most recent report was tabled at the Planning and Environment Committee August 20th, 2012. The report recommended, in response to Committee requests, that the Old Victoria Stormwater Management Facility No. 1 be considered for inclusion as part of the 2014 Development Charges Study in the year 2017 and the use of a Municipal Servicing and Financing Agreement between the City and the Thames Village Joint Venture Corporation also be considered. Council resolved that staff consult with the Developer of the Old Victoria East lands and the financing of the project be further discussed. Through consultation with the Developer and Development Services staff it was agreed that staff would put forward the Old Victoria Stormwater Management Facility No. 1 with a timing of 2014 in the 2013 GMIS. This option would eliminate the need for an MSFA agreement, which would in all likelihood have been recommended for rejection due to financial conditions in the affected reserve fund.

The second stormwater facility impacted by a 2012 Council decision is the Pond SB which provides stormwater servicing to the Draft Plan approved Kape and Medaoui Subdivision in the Wickerson development area. SWMF SB was the subject of a report to Planning and Environment Committee meeting October 15, 2012. The Council Resolution directs that the project be included in the year 2014 in the 2013 GMIS Update when it is to be constructed by the City.

With respect to both of the above, it should be noted that a comprehensive analysis of all development related infrastructure projects will be undertaken as part of the 2014 Development Charges Study process. As there are existing issues with debt in the Stormwater Management City Services Reserve Fund, and assuming for the moment no improvement in DC revenue performance, either large scale deferrals of SWM ponds or a significant increase of the stormwater management component of the development charge fee may be required. This action would only be taken in order to minimize debt risk and adverse DC rate impacts due to financing costs.

c) Stormwater Management Facility Schedule Update

There are a number of stormwater management infrastructure works that have been approved in previous budgets that cannot be constructed at this time due to outstanding EAs or stalled development applications. The resulting project deferrals will have a modestly positive impact on the state of the Stormwater Management City Services Reserve Fund debt situation. At the time of writing of this report, it is expected that the Stormwater Management Unit will come forward to Civic Works Committee with a report that will update the construction schedule of development related stormwater management facilities. These modest improvements are already reflected in the analysis of the SWM Reserve Fund presented in this report.

d) Next Steps

Based on the preceding analysis, previous Council direction, and discussion above:

- Staff in the Stormwater Management Unit of Engineering Services intend to bring forward a report to update the schedule of existing approved SWM pond projects and defer some of the funding commitments (report to be tabled with Civic Works Committee). That report will recommend deferrals to SWM projects that improve the DC SWM Reserve Fund position, and should be supported;
- The City must carefully consider any SWM project that is brought forward in the near term in light of the current situation that would exacerbate the SWM debt problem. Any proposed use of an MSFA under current conditions must carefully consider the existing debt profile in the SWM and Sanitary DC reserve funds;
- The City Treasurer will continue to monitor the situation in the DC SWM Reserve Fund in the coming several months, and in coordination with the City Engineer report back and provide recommendations on SWM project timing if necessary;
- It should be noted that the introduction of new DC rates in 2014 provides the opportunity to amend the DC SWM rates and positively affect the projected debt position of the fund.

Staff also are proceeding on the basis that the work on the 2014 DC study should proceed with a view towards identifying alternative policy framework mechanisms to minimize and avoid some of the financial risk in approving projects for infrastructure serving growth where those projects must rely on DC funded debt financing. Any alternative developed will be discussed with the City's DC consultant, City Staff (Engineering, Finance, Planning, and Development Services), and with representatives of the development community through the 2014 DC Study External Stakeholder process.

Staff also intends to take steps to stabilize the Stormwater Management City Services Reserve Fund and address the existing SWM debt problem. However, it should be noted that the solution may involve increased DC SWM rates, new financing approaches, and/or deferral of projects until such time as the financial position of the SWM DC Reserve fund has improved.

CONCLUSION

The GMIS is an important tool for Council to coordinate growth infrastructure with development approvals and guide the pace of growth across the city. As the GMIS process strives for continuous improvement, the 2013 GMIS provides the most comprehensive financial and debt analysis to date. The analysis concluded that nine (9) of the ten (10) City Services reserve funds are currently at sustainable debt levels; however, the debt in one of the reserve funds - the Stormwater Management City Services Reserve Fund - is not sustainable. Staff intend to address this debt problem through the 2014 Development Charge Update Study Process but earlier intervention may be necessary.

In order to address this problem either scheduled Stormwater Management servicing projects will need to be deferred, the Stormwater Management portion of the Development Charge fee will need to increase, or new Stormwater financing approaches will need to be developed. Staff will discuss these options to the Development Charge Stakeholder Committee in an attempt to reach a well vetted solution.

Acknowledgements

The 2013 GMIS development undertaken with participation from Environmental and Engineering Services, Development Services, Planning, and the Financial Planning and Policy Division in providing revenue and debt information.

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November 26, 2012

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Attach/

Appendix A: Summary List of 2013 GMIS Projects, Adjustments, & Additions

APPENDIX 'A'

Appendix A: Summary of GMIS Adjustments & Additions

2013+GMIS TIMING	Previous GMIS TIMING	City Project #	Project Description	Rationale for Change/Adjustment
TRANSPORTATION ROAD PROJECTS				
2013	2018	TS1033	Wonderland Road Corridor Environmental Assessment	This project was anticipated to be used for growth beyond the 20 year time frame (Note: Wonderland from Exter to 401 was not considered within the 20 year time frame); however, in extending the Enterprise Zone beyond Exeter Road Council has triggered the need to undertake an EA for this portion of the corridor.
2018	Beyond 20 Years		Bradley Avenue Extension from Whanclyffe Road to Wonderland Road	The Transportation Master Plan modeling indicated that this portion of Bradley would be required as a network need sooner than originally anticipated in the previous Development Charge transportation servicing study.
SANITARY SEWER PROJECTS				
2013	2015	ES5260	Southwest Sanitary Servicing Implementation Study	This implementation study has been triggered by desire of Council to facilitate residential development in the South West Area
STORMWATER MANAGEMENT PROJECTS				
Not Required	2017	ES3019	White Oaks SWMF 1	Ongoing Environmental Assessment Addendum has recommended that the White Oak SWMF 1 not be constructed.
2014	2014	ES3019	SWMF SB	SWMF SB was the subject of a report to Planning and Environment Committee meeting October 15, 2012. The Council Resolution requested that the project be included in the year 2014 in the 2013 GMIS Update. It should be noted that a comprehensive analysis of all development related infrastructure projects will be undertaken as part of the 2014 Development Charges Study process. As there is existing issues with debt in the Stormwater Management City Services Reserve Fund large scale deferrals of SWM ponds or a substantial increase of the stormwater management component of the development charge fee may be required.
2014	2017		Old Victoria SWMF No.1	The Old Victoria SWMF No.1 was scheduled beyond 20-year in the 2009 Development Charge Study. Old Victoria SWMF No.1 was the subject of several Planning and Environment Committee reports in 2012 with the last report coming forward August 20th, 2012. Council resolved that staff consult with the Developer of the Old Victoria East lands. During consultation it was decided that the Old Victoria SWMF No.1 would be scheduled in the GMIS as a 2014 project as discussed in the August 20th, 2012 Planning and Environment Committee Report. It should be noted that a comprehensive analysis of all development related infrastructure projects will be undertaken as part of the 2014 Development Charges Study process. As there is existing issues with debt in the Stormwater Management City Services Reserve Fund large scale deferrals of SWM ponds or a substantial increase of the stormwater management component of the development charge fee may be required.